



Basic Financial Statements

For the Year Ended September 30, 2008

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Table of Contents

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-17
Supplementary Information	
Schedule of Program Expenses	18-19
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-22

INDEPENDENT AUDITORS' REPORT

February 4, 2009

To the Board of Directors
Lenawee Community Mental Health Authority
Adrian, Michigan

We have audited the accompanying financial statements of the ***Lenawee Community Mental Health Authority*** as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lenawee Community Mental Health Authority as of September 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Lenawee Community Mental Health Authority. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lenawee Community Mental Health Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Net Assets
September 30, 2008

Assets

Current assets:

Cash and cash equivalents	\$ 3,154,101
Restricted cash and cash equivalents	193,170
Accounts receivable	28,753
Due from Michigan Department of Community Health	28,103
Due from other agencies	109,716
Interest receivable	7,716
Other assets	138,709
Total current assets	<u>3,660,268</u>

Noncurrent assets:

Capital assets not being depreciated	221,680
Capital assets being depreciated, net	962,406
Total noncurrent assets	<u>1,184,086</u>

Total assets	<u>4,844,354</u>
--------------	------------------

Liabilities

Current liabilities:

Accounts payable	1,149,798
Accrued payroll	138,480
Due to Michigan Department of Community Health	86,252
Due to other agencies	169,743
Unearned revenue	2,000
Mortgage payable, current portion	52,053
Accrued compensated absences, current portion	28,768
Total current liabilities	<u>1,627,094</u>

Noncurrent liabilities:

Mortgages payable, net of current portion	532,024
Accrued compensated absences, net of current portion	163,020
Total noncurrent liabilities	<u>695,044</u>

Total liabilities	<u>2,322,138</u>
-------------------	------------------

Net assets

Invested in capital assets, net of related debt	600,009
Restricted for other purposes	195,570
Unrestricted	<u>1,726,637</u>

Total net assets	<u><u>\$ 2,522,216</u></u>
-------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2008

Operating revenues

Medicaid	\$ 11,659,678
State general fund indigent	2,172,858
Earned revenues, grants and federal programs	234,259
Adult benefit waiver	204,971
Charges for services	96,328
Local revenue:	
Community appropriations	373,338
Contract agency match	63,223
Other local revenue	76,791
	<hr/>
Total operating revenues	14,881,446

Operating expenses

Administration	1,783,010
Developmental disabilities	986,457
Mental health - adult	2,600,772
Mental health - child	515,597
Other services	9,109,664
	<hr/>
Total operating expenses	14,995,500
	<hr/>
Operating loss	(114,054)

Nonoperating revenues (expenses)

Interest revenue	118,023
Interest expense	(11,091)
	<hr/>
Total nonoperating revenue (expenses)	106,932

Change in net assets	(7,122)
Net assets, beginning of year	2,529,338
	<hr/>
Net assets, end of year	\$ 2,522,216

The accompanying notes are an integral part of these financial statements.

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Cash Flows
For the Year Ended September 30, 2008

Cash flows from operating activities

Cash received from customers and contracts	\$ 15,041,834
Cash payments to suppliers for goods and services	(12,177,154)
Cash payments to employees for services	<u>(2,794,492)</u>
Net cash provided by operating activities	<u>70,188</u>

Cash flows used in capital and related financing activities

Proceeds from issuance of long-term debt	609,659
Purchase of capital assets	(621,492)
Principal payments	(25,582)
Interest payments	<u>(11,091)</u>
Net cash used by capital and related financing activities	<u>(48,506)</u>

Cash flows from investing activities

Interest received	<u>124,361</u>
Increase in cash and cash equivalents	146,043

Cash and cash equivalents, beginning of year	<u>3,201,228</u>
--	------------------

Cash and cash equivalents, end of year	<u><u>\$ 3,347,271</u></u>
---	-----------------------------------

Amounts per Statement of Net Assets:

Cash and cash equivalents	\$ 3,154,101
Restricted cash and cash equivalents	<u>193,170</u>
	<u><u>\$ 3,347,271</u></u>

continued...

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2008

**Reconciliation of operating income to net
cash used in operating activities**

Operating loss	\$ (114,054)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation expense	65,306
Changes in assets and liabilities:	
Accounts receivable	(8,354)
Due from MDCH	134,887
Due from other agencies	33,855
Other assets	21,517
Accounts payable	226,972
Accrued payroll	29,140
Due to MDCH	11,926
Due to other agencies	(318,032)
Unearned revenue	2,000
Accrued compensated absences	(14,975)
	<hr/>
Net cash provided by operating activities	<u><u>\$ 70,188</u></u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lenawee Community Mental Health Authority (the “Authority”) is a member of the Community Mental Health Partnership of Southeast Michigan. This affiliation is composed of the community mental health programs in Lenawee, Livingston, Monroe and Washtenaw Counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act.

The affiliation was formally created by written agreement and official approval of the boards of the affiliates commencing on January 1, 2002. The agreement established a legal mechanism for the preparation, submission, and implementation of a Consolidated Application to the Michigan Department of Community Health (MDCH) for a Medicaid Prepaid Health Plan. Said plan was to ensure the continuation of necessary funding to each of the affiliates to provide services to Medicaid-eligible persons in their respective communities. The Community Mental Health Partnership of Southeast Michigan was successful in its application to MDCH.

The affiliation continues to operate under its original agreement. An “Affiliation Executive Committee” (AEC) supervises and administers the execution of the agreement. The AEC is comprised of the Executive Director from each participating Authority and the Executive Director of the Washtenaw Community Health Organization (WCHO). The WCHO is the lead agency for the affiliation. Operating under a master contract with the Michigan Department of Community Health for Medicaid Capitation Funds, the WCHO executes its fiduciary responsibilities for the receipt, management, and distribution of the Medicaid funds for the region through individual contracts with each of the affiliates.

The Authority is a separate legal entity that accounts for its own financial activity under its contracts with MDCH and the Community Mental Health Partnership of Southeast Michigan. As the community mental health services program (CMHSP) provider for Lenawee County, the Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are available to Lenawee County residents who meet eligibility and need criteria. The Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority has no component units (i.e., separately legal entities for which the Authority is financially accountable) nor is it reported as a component unit of another government.

B. Basis of Presentation

The operations of the Authority are accounted for as an enterprise fund (a proprietary fund type) which is designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, accountability, public policy, management control, or other purposes. The enterprise fund is the Authority's primary operating fund, and only major fund.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from Medicaid and MDCH (state general fund), earned revenues, first and third party billings (charges for services), community appropriations, and local revenues. Operating expenses include the cost of providing community mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents. The Authority's cash and cash equivalents include cash on hand, demand deposits, and as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables. Accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends. Amounts due from other agencies consist of amounts due from other contract agencies.

Prepayments. Payments made to vendors for services that will benefit periods beyond September 30, 2008, are recorded as *other assets* in the statement of net assets.

Capital Assets. Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles, are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized; improvements are capitalized.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Vehicles	3
Equipment and furnishings	5-7
Computers	3
Buildings and improvements	10-40

Payables. Accounts payable and accrued liabilities consist of amounts due to vendors and services providers, along with management's estimate of the inpatient/residential liability. This estimate is based on the clients at each facility, the number of days each client is at each facility, and the daily rate charged for each facility.

Compensated Absences. All regular full-time employees and all regular part-time employees are eligible for paid leave. Paid leave may be used for vacation, sickness, or personal days. An employee accrues leave time according to the number of years of service rendered and the number of hours worked per week. The accrued leave is payable to an employee at the time of termination.

II. DETAILED NOTES

A. Deposits

The following is a summary of cash and cash equivalent balances as of September 30, 2008:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 3,346,761
Cash on hand	<u>510</u>

Total	<u>\$ 3,347,271</u>
--------------	----------------------------

Balances per statement of net assets:

Cash and cash equivalents	\$ 3,154,101
Restricted cash and cash equivalents	<u>193,170</u>

Total	<u>\$ 3,347,271</u>
--------------	----------------------------

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the carrying value of the Authority's deposits was \$3,346,761 and the bank balance was \$3,688,933. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Authority limits its exposure to interest rate risk by investing in conservative instruments like certificates of deposit with terms of six months or less. As of September 30, 2008, all certificates of deposit were due within three months.

B. Due from/to Michigan Department of Community Health

For the year ended September 30, 2008, the operations of the Authority were conducted under the terms and conditions of a managed specialty supports and services contract with the Michigan Department of Community Health (MDCH). Among other provisions of this contract, the Authority may determine the nature and extent of institutional care, if any, to be provided to its clients. Thereunder, funds are advanced by the State in order for the Authority to pay for the costs of such institutional care, which is primarily procured from certain State institutions, as well as community hospitals.

Amounts due from MDCH at September 30, 2008, were \$28,103 for grants passed through MDCH. In addition, amounts due to MDCH were \$86,252 for institutional care services.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

C. Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 221,680	\$ -	\$ 221,680
Capital assets being depreciated:				
Buildings	490,169	399,812	-	889,981
Leasehold improvements	229,391	-	-	229,391
Furniture and fixtures	67,565	-	-	67,565
Office equipment	464,932	-	-	464,932
Vehicles	32,446	-	-	32,446
	<u>1,284,503</u>	<u>399,812</u>	<u>-</u>	<u>1,684,315</u>
Less accumulated depreciation for:				
Buildings	124,425	24,114	-	148,539
Leasehold improvements	31,860	15,293	-	47,153
Furniture and fixtures	65,628	803	-	66,431
Office equipment	406,880	20,460	-	427,340
Vehicles	27,810	4,636	-	32,446
	<u>656,603</u>	<u>65,306</u>	<u>-</u>	<u>721,909</u>
Total capital assets being depreciated, net	<u>627,900</u>	<u>334,506</u>	<u>-</u>	<u>962,406</u>
Total capital assets, net	<u>\$ 627,900</u>	<u>\$ 556,186</u>	<u>\$ -</u>	<u>\$ 1,184,086</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

D. Long-term Debt

The following is a summary of changes in long-term of the Authority for the year ended September 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within one year	Long-term
Mortgage	\$ -	\$ 609,659	\$ (25,582)	\$ 584,077	\$ 52,053	\$ 532,024
Compensated absences	206,763	15,000	(29,975)	191,788	28,768	163,020
	<u>\$ 206,763</u>	<u>\$ 624,659</u>	<u>\$ (55,557)</u>	<u>\$ 775,865</u>	<u>\$ 80,821</u>	<u>\$ 695,044</u>

Mortgage Payable. During 2008, the Authority borrowed \$609,659 under a mortgage agreement with a local bank to purchase two residence homes and a clubhouse.

The requirement to amortize the mortgage outstanding at September 30, 2008 is as follows:

Year ended September 30,	Principal	Interest
2009	\$ 52,053	\$ 21,292
2010	54,066	19,279
2011	55,975	17,189
2012	58,287	15,058
2013	60,583	12,762
2014-2018	303,113	27,115
	<u>\$ 584,077</u>	<u>\$ 112,695</u>

E. Lease Commitments

The Authority currently leases its main facility from Lenawee County on a 60 month lease ending February 28, 2011 with monthly payments of \$27,116.

Eight residential facilities are leased from independent third parties on three to six-year terms. Lease payments currently total \$13,796 per month.

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**

Notes to the Financial Statements

Scheduled future minimum operating lease payments under these agreements as of September 30, 2008, are summarized as follows:

<u>Fiscal Year</u>	<u>Commitment</u>
2009	\$ 490,950
2010	423,015
2011	187,010
2012	25,724
2013	<u>25,724</u>
	<u>\$ 1,152,423</u>

F. Endowment

Certain funds are held and managed by the Lenawee Community Foundation (the "Foundation") and are irrevocably invested. The principal and earnings balance of the endowment fund is \$18,743 at September 30, 2008. Earnings are available for distribution to the Authority for its operations at the discretion of the Foundation. The Foundation maintains unilateral variance power and legal ownership of the endowment funds, and therefore, principal and earnings balances are not reflected in the Authority's financial statements.

G. Restricted Assets / Net Assets

The net assets shown on the Authority's statement of net assets as 'restricted for other purposes' represent assets restricted by the donor that are to be used in the research of causes and treatment of mental illness. The activity for these restricted funds for the year ended September 30, 2008 is as follows:

Beginning net assets	\$ 193,332
Add - interest revenue	7,238
Deduct - expenditures	<u>(5,000)</u>
Ending net assets	<u>\$ 195,570</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

B. MDCH Revenue and Economic Dependency

The Authority provides mental health services on behalf of the MDCH in accordance with a managed specialty supports and services contract (the “contract”). Under the contract, the Authority receives monthly capitation payments based on the number of the MDCH’s participants, regardless of services actually performed by the Authority. In addition, the MDCH makes fee-for-service payments to the Authority for certain covered services.

Revenues paid either directly or indirectly by the MDCH represent over 90% of the Authority’s total revenues and, therefore, the Authority is economically dependent on the revenues from the MDCH.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Retirement Plan

Plan Description

The Authority maintains a single-employer defined benefit plan (Lenawee Community Mental Health Authority Pension Plan) that covers all eligible employees through a private insurance company that acts as investment and administrative agent for the Authority. The insurance company issues an actuarial report annually, which is available at the Authority’s office.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

Summary of Significant Accounting Policies

The Authority's contributions are recognized when due and a formal commitment to provide the contributions has been made.

Funding Policy

Employees contribute 2.5% of annual compensation. The contribution requirements for the Authority are determined by the actuary. The employer contributions consist of the actuarial determined normal cost and a portion of the unfunded liability (15-year amortization) plus an 8% interest factor.

Annual Pension Cost

For the year ended September 30, 2008, the Authority's annual pension cost was \$363,207, which equals the required contribution. The required contribution was determined by using projected unit credit cost method. The actuarial assumptions included: (a) an 8% investment rate of return; and (b) projected salary increases of 3% per year. The unfunded actuarial accrued liability is being amortized over a 15 year period.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/2006	\$ 4,830,132	\$ 5,222,309	\$ 392,177	92.5%	\$ 2,915,896	13.45%
1/1/2007	5,746,874	5,925,264	178,390	97.0%	2,760,256	6.46%
1/1/2008	6,376,394	6,541,856	165,462	97.5%	2,785,750	5.94%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Recognized
9/30/2006	\$ 328,616	100%
9/30/2007	376,007	100%
9/30/2008	363,207	100%

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

Notes to the Financial Statements

E. Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs which may be disallowed by the grantor or contract agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

* * * * *

SUPPLEMENTARY INFORMATION

**LENAWEE COMMUNITY
MENTAL HEALTH AUTHORITY**
Schedule of Program Expenses
For the Year Ended September 30, 2008

	<u>Personnel</u>	<u>State Inpatient</u>	<u>Community Inpatient</u>	<u>Client Expenses</u>	<u>Contracts</u>	<u>Operations</u>	<u>Total Operating Expenses</u>
Administration							
Executive board	\$ 459,062	\$ -	\$ -	\$ -	\$ -	\$ 151,209	\$ 610,271
Fiscal	142,628	-	-	-	-	25,461	168,089
Records	95,071	-	-	-	-	23,356	118,427
Customer service	137,413	-	-	-	-	40,799	178,212
Service inquiry	116,032	-	-	-	-	18,004	134,036
Finance	78,139	-	-	-	1,075	29,831	109,045
Personnel	50,368	-	-	-	-	5,592	55,960
Program admin	174,286	-	-	-	-	17,520	191,806
MIS	88,923	-	-	-	-	128,241	217,164
	<u>1,341,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,075</u>	<u>440,013</u>	<u>1,783,010</u>
Developmental disabilities							
Support services	290,529	-	-	3,850	-	31,949	326,328
Support coordination	479,690	-	-	-	109,079	71,360	660,129
	<u>770,219</u>	<u>-</u>	<u>-</u>	<u>3,850</u>	<u>109,079</u>	<u>103,309</u>	<u>986,457</u>
Mental health - adult							
Clubhouse	122,947	-	-	10,982	-	125,959	259,888
Support coordination	676,146	-	-	1,588	-	121,104	798,838
Access	343,509	-	-	-	-	43,318	386,827
Medication clinic	246,628	-	-	-	866,960	41,631	1,155,219
	<u>1,389,230</u>	<u>-</u>	<u>-</u>	<u>12,570</u>	<u>866,960</u>	<u>332,012</u>	<u>2,600,772</u>
Mental health - child							
Support coordination	276,251	-	-	-	2,480	41,808	320,539
Outpatient	151,923	-	-	-	-	43,135	195,058
	<u>428,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,480</u>	<u>84,943</u>	<u>515,597</u>
Other services							
Contract agencies	-	395,676	5,863,414	-	2,795,936	-	9,055,026
Block grants	35,000	-	-	-	-	13,066	48,066
Restricted fund	-	-	-	-	-	5,000	5,000
Other-RICC	-	-	-	-	-	1,572	1,572
	<u>35,000</u>	<u>395,676</u>	<u>5,863,414</u>	<u>-</u>	<u>2,795,936</u>	<u>19,638</u>	<u>9,109,664</u>
	<u>\$ 3,964,545</u>	<u>\$ 395,676</u>	<u>\$ 5,863,414</u>	<u>\$ 16,420</u>	<u>\$ 3,775,530</u>	<u>\$ 979,915</u>	<u>\$ 14,995,500</u>

Nonoperating Interest Expense	Total Expenses
\$ -	\$ 610,271
-	168,089
-	118,427
-	178,212
-	134,036
-	109,045
-	55,960
-	191,806
-	217,164
-	1,783,010
-	326,328
-	660,129
-	986,457
6,655	266,543
-	798,838
-	386,827
-	1,155,219
6,655	2,607,427
-	320,539
-	195,058
-	515,597
4,436	9,059,462
-	48,066
-	5,000
-	1,572
4,436	9,114,100
<u>\$ 11,091</u>	<u>\$ 15,006,591</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

February 4, 2009

To the Board of Directors
Lenawee Community Mental Health Authority
Adrian, Michigan

We have audited the financial statements of the *Lenawee Community Mental Health Authority* as of and for the year ended September 30, 2008, and have issued our report thereon dated February 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements in Accordance with GAAP

Criteria. The Authority is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.

Cause. Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect. As a result of this condition, the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials. The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Authority in a separate letter dated February 4, 2009.

The Authority's response to the finding identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Lenawee Community Mental Health Authority Board, management, others in the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohsen". The signature is written in a cursive style with a large, prominent 'L' at the beginning.